

At the crossroads of policy ambitions and political reality: reflections on the prospects of LNG development in Russia

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Oil, Gas & Energy Law Intelligence

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At the Crossroads of Policy Ambitions and Political Reality: Reflections on the Prospects of LNG Development in Russia

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Abstract

With world's largest conventional natural gas reserves, flat domestic demand, and uncertain demand for pipeline gas exports, Russia is poised to become an important player in the global LNG market. Indeed, the Russian leadership named LNG development as one of the key features of its energy policy. This article aims to examine this policy ambition and reflect on the barriers to and opportunities in realising it. The article provides an overview of LNG projects in Russia and examines the policy rationale for their expansion. It discusses the support that the Russian government provides to LNG projects and analyses political, legal, and regulatory barriers to LNG development. The article reaches a conclusion that in the absence of reversal of the Russian leadership's patronage policy, applied to only a few companies, the country faces a thorny road to becoming a key supplier in the global LNG market.

1. Introduction

In August 2017, the 300-metre liquefied natural gas (LNG) tanker 'the Christophe de Margerie' owned by Sovkomflot, a Russian state-controlled company, delivered a cargo of LNG from Hammerfest in Norway to Boryeong in South Korea.¹ The voyage set a few records – the ship travelled through the Northern Sea Route (NSR) in record time – six and a half days – without an icebreaker escort, and it reached its destination in 19 days, approximately 30% faster than the conventional southern route through the Suez Canal.² The voyage also generated several discourses, including opening of the Arctic due to climate change, economic advantages of navigation through the NSR, and Russia's rise as a key player on the global LNG market.³

The latter discourse was premised on the fact that the Christophe de Margerie is a tanker built specifically to serve the Yamal LNG project named after the gas-rich Siberian peninsula on which the project is located.⁴ The discourse also had a particular undertone portraying Russia as a country open to international business cooperation and capable of following through on its policy ambitions in the Arctic region despite all the economic and geopolitical odds.⁵ It is difficult to dismiss this undertone outright – Yamal LNG is an international project developed by CNPC, a Chinese state-owned oil and gas company, Total, a French oil and gas supermajor, and Novatek, a Russian private company and a self-described independent natural gas producer. The tanker is named after Total's former CEO who died in an airplane

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¹ Patrick Barkham, Russian tanker sails through Arctic without icebreaker for first time, The Guardian, (24 August 2017), <https://www.theguardian.com/environment/2017/aug/24/russian-tanker-sails-arctic-without-icebreaker-first-time>.

² *Id.*

³ *Id.*

⁴ *Id.*

⁵ RT, Russian LNG tanker navigates Arctic sea route in record 6.5 days, RT (24 August 2017), <https://www.rt.com/business/400620-russia-northern-sea-route-tanker/>.

crash at a Moscow airport.⁶ The Yamal LNG project appears to be on schedule and within budget notwithstanding the limited access to international capital due to the economic sanctions imposed by the United States and European Union in 2014.⁷ These facts create a strong impression that Russia is on track to increase its share of the global LNG market from the meagre 3.6% and realise its vast potential and policy ambition for LNG development.⁸

The overarching purpose of this article is to examine this policy ambition and reflect on the barriers to and opportunities in realising it. Correspondingly, the research question I aim to answer is: “In what ways is the Russian leadership’s policy ambition to develop LNG production and export capacity furthered or restricted by the current political, legal, and regulatory regime? To answer this question, I utilize the corroborative and complimentary discourse and legal analysis of policy statements by key Russian government decision-makers, as well as applicable laws and regulations. In addition, I use various energy and government statistics as contextual data.

The article commences with an overview of LNG projects in Russia and an examination of the policy rationale for their expansion. It continues with a discussion of the support that the Russian government provides to LNG projects. The article concludes with an analysis of barriers to LNG development in Russia that make realisation of the policy ambition a difficult task.

2. LNG in Russia – a Brief Overview

In 2014, Russia produced 21,225 bcf of dry natural gas, the second-largest amount in the world.⁹ It also exported a world-leading 6,848 bcf of dry natural gas, outgaining the second-largest exporter, Qatar, by nearly 50%.¹⁰ In 2015, approximately 90% all Russia’s natural gas exports went to Europe via pipeline.¹¹ Russia exported a sizable portion of the remaining 10%, 500 bcf, to Japan, South Korea, Taiwan, and China as LNG.¹² All LNG exports came from Russia’s lone LNG plant, which is part of the Sakhalin II project located in the country’s Far East region.¹³ Better known in the West as the Sakhalin Energy LNG plant (‘Sakhalin LNG’), the facility receives natural gas from the Piltun-Astokhskiye and Lunskiye fields.¹⁴

⁶ BBC, Total's CEO Christophe de Margerie dies in Moscow plane crash, BBC (21 October 2014), <http://www.bbc.co.uk/news/business-29699733>.

⁷ President of the Russian Federation, Transcript of the Meeting with the Chairman of Novatek's Board Leonid Mikhelson, Moscow, (31 October 2014) [hereinafter 31 November 2014 Transcript]. Transcript of the Meeting with the Chairman of Novatek's Board Leonid Mikhelson, Moscow, Moscow Region, Novo-Ogarevo, (14 November 2016).

⁸ President of the Russian Federation, Transcript of the Commission on the Strategic Development of the Energy Sector and Environmental Security meeting, Moscow Region, Novo-Ogarevo, (13 February 2013) [hereinafter 13 February 2013 Transcript].

⁹ U.S. Energy Information Administration, Russia, <https://www.eia.gov/beta/international/analysis.cfm?iso=RUS> (last visited 15 September 2017) [hereinafter EIA, Russia].

¹⁰ *Id.*

¹¹ EIA, Russia.

¹² *Id.*

¹³ *Id.*

¹⁴ Gazprom, Sakhalin II, <http://www.gazprom.com/about/production/projects/lng/sakhalin2/> (last visited 15 September 2017) [hereinafter Gazprom, Sakhalin 2].

Sakhalin II was born in 1994 as a joint venture of Royal Dutch Shell plc, Mitsui & Co., Ltd. and Mitsubishi Corporation (collectively, ‘Sakhalin Energy’,) on one side and the Government of the Russian Federation and the Administration of the Sakhalin Region on the other.¹⁵ The parties entered a Production Sharing Agreement (PSA) to develop the aforementioned fields.¹⁶ The project entered into a new phase in 2007 when Gazprom acquired 50% plus one share of the project’s stock.¹⁷

Sakhalin LNG’s tenure as Russia’s lone LNG plant is projected to end in 2017, when Yamal LNG is commissioned. Similar to its Far Eastern counterpart, Yamal LNG is developed by an international consortium where the Russian member, Novatek in this case, is the majority shareholder (50% + one share). The plant will include three trains, each with an annual capacity of 5.5 Mt. Novatek claims to have placed long-term contracts for 95% of the project capacity with customers in both Europe and Asia.¹⁸

Beyond Sakhalin LNG and Yamal LNG, the future of Russia’s LNG sector appears uncertain. The discourse surrounding potential LNG projects is similar to that of Russian pipeline expansion – full of overly ambitious statements that promise near-certainty but rarely lead to actual deliveries.¹⁹ For this reason, Table 1 below provides a cursory overview of the notable proposals.

Table 1 Notable Proposed LNG Projects in Russia²⁰

Proposed Project	Principal Developer	Project Details
Sakhalin LNG expansion	Sakhalin Energy (Gazprom)	Kirinskoye Block in Sakhalin III, one additional train
Arctic LNG-2	Novatek	Salmanovskoe (Utrennee) field, two to three trains with 12-18 Mt of annual capacity
Yamal LNG expansion	Novatek	South Tambey field, one additional 5.5 Mt train
Vladivostok LNG	Gazprom	Kovyktinskoe and Chayandinskoe fields via the Power of Siberia pipeline (in construction), 10-15 Mt of annual capacity
Baltic LNG	Gazprom	Western Siberia fields via the trunk pipeline system, 10 Mt of annual capacity
Far East LNG	Rosneft	Chayvo field, Sakhalin I, 5 Mt of annual capacity
Pechora LNG	Rosneft	Kumzhinskoye and Korovinskoye fields

¹⁵ *Id.*

¹⁶ *Id.* Remarkably, Sakhalin II is one of just three PSAs in Russia. The Ministry of Energy of the Russian Federation, Energy of the Russian Federation the PSA Project Performance Results for 2011 Illustrate Their Effectiveness and Contribution to the Development of the Russian Economy (Rus.), (29 December 2011), retrieved from: http://minenergo.gov.ru/press/min_news/10423.html. Mazkov Evgeny, Legal Regulation of Geological Exploration and Extraction of Oil and Gas in the Continental Shelf of the Russian Federation, (2008) (unpublished candidate of legal studies dissertation, Moscow State Law Academy) (on file with author) at 66.

¹⁷ Gazprom, Sakhalin 2.

¹⁸ Novatek, Yamal LNG, <http://www.novatek.ru/en/business/yamal-lng/> (last visited 15 September 2017) [hereinafter Novatek, Yamal LNG].

¹⁹ Edward Chow, Center for Strategic & International Studies, Russian Gas Stream or Dream?, (2 February 2015), retrieved from: <https://www.csis.org/analysis/russian-gas-stream-or-dream>.

²⁰ The Oxford Institute for Energy Studies, Russian LNG: Progress and delay in 2017, (March 2017) retrieved from: <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2017/03/Russian-LNG-%E2%80%93-Progress-and-delay-in-2017-OIES-Energy-Insight.pdf> [hereinafter Oxford, 2017].

Because the timelines of these projects are routinely revised, their future is hard to pin down beyond an educated guess. For example, the completion date of one of the ostensibly most certain projects, the Sakhalin LNG expansion, which Gazprom claimed was under development in 2014,²¹ was pushed back to 2021.²² Perhaps the most vivid example of this pattern is the Shtokman project that within a few short years went from being the harbinger of Russia's contemporary global LNG ambitions to a project to be developed 'by future generations'.²³ Novatek might be in the best position to succeed in fulfilling its LNG ambitions. The company is getting much needed experience leading a large and complex project. As I elaborate below, it enjoys formidable support from the Russian government, and its license for the development of the Salmanovskoe (Utrennee) field appears to allow for LNG exports.

3. Policy Rationale for LNG Expansion

The policy case for LNG development in Russia is straightforward. Russia has the world's largest conventional dry natural gas reserves.²⁴ With a stagnant domestic market, natural gas exports present the only viable option for developing the vast reserves.²⁵ Pipeline exports to Europe, including former Soviet Union countries, have been a source of export revenue and a foreign policy tool for the Russian government. However, because of the flattening demand in European OECD countries and fears about excessive dependence on Russian gas in light of Russia's annexation of Crimea in March 2014, the prospects for market growth appear to be slim.²⁶ Moreover, in the absence of new contracts and renewal of existing ones, by mid-2020, European customers will be obligated to import only 75% of the 2013 import levels annually, or 115 bcm.²⁷ By 2030, this number will decrease to 65 bcm per year or 42% of the 2013 import levels.²⁸

For these reasons, reaching beyond European markets has become a priority for the Russian government and Russian energy companies. With LNG prices in South Korea and Japan hovering in the \$15 per MMBtu range in 2011 and 2013,²⁹ and the perception of China's massive appetite for natural gas, China and Southeast Asia have become the target region for Russian government and corporate decision-makers.³⁰ At the time this article was written, Russia did not have gas pipelines connecting its giant West Siberian natural gas fields with new markets in China and Southeast Asia. However, Gazprom is currently in the process of unlocking Russia's East Siberian natural gas fields and delivering their contents to China.

²¹ See generally, Roman Sidortsov, The Myth of Liberalization: the 2013 Changes in the Russian LNG Export Regime, *Energy Law Journal*, 35:2 (2014) [hereinafter Sidortsov, 2014].

²² Oxford, 2017 at 2.

²³ *Id.*

²⁴ EIA, Russia.

²⁵ Center for Strategic & International Studies, The Future of Russian Gas Exports, CSIS event on 22 July 2015. Washington, D.C., retrieved from <https://www.csis.org/events/future-russian-gas-exports> [hereinafter CSIS, 2015].

²⁶ The Oxford Institute for Energy Studies, Reducing European Dependence on Russian Gas: distinguishing natural gas security from geopolitics, (2014) retrieved from: <http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/10/NG-92.pdf> [hereinafter Oxford, 2014]

²⁷ *Id.*

²⁸ *Id.*

²⁹ U.S. Energy Information Administration, Global Natural Gas Markets Overview: A Report Prepared by Leidos, Inc., Under Contract to EIA, (August 2014) retrieved from: https://www.eia.gov/workingpapers/pdf/global_gas.pdf at 5 [hereinafter EIA, 2014].

³⁰ President of the Russian Federation, Transcript of presidential remarks at the investment forum 'Russia is Calling!', Moscow, (2 October 2014) [hereinafter 2 October 2014 Transcript]

On 21 May 2014, Gazprom and the Chairman of China National Petroleum Corporation (CNPC) signed an agreement for the Russian counterpart to supply 38 bcf of natural gas per year to China via a pipeline for 30 years.³¹ In order to do that, Gazprom will develop the Kovyktinskoe field in the Irkutsk Region with natural gas reserves of 1.5 tcm (24 tcf), and the Chayandinskoe field in the Sakha (Yakutia) Republic with natural gas reserves of 1.2 tcm (19 tcf).³² Gazprom and CNPC are in the process of constructing the Power of Siberia unified gas transmission system (GTS), spanning about 4,000 kilometres and capable of delivering 61 bcm per (978 bcf) per year.³³ The Kremlin views the Power of Siberia GTS as an integral part of the state's Eastern Gas Program. The Russian leadership likes to stress the overall economic development of the region, and its gasification in particular, as one of the main goals of the Eastern Gas Program. However, its underlying objective is to create a resource base and transport infrastructure for exports to China and Southeast Asia.^{34 35}

Although the Power of Siberia agreement was heralded by the Russian leadership and Kremlin-aligned media as a triumph of Russia's foreign energy policy,^{36 37} a closer look at the deal's economics raises serious questions about its benefits for the Russia. In fact, after learning more details about the terms of the agreement, Morgan Stanley downgraded Gazprom's stock 'to reflect the signing of the deal with China'.³⁸ Perhaps the most eloquent description of the deal lop-sidedness t came from James Sherr, a former head of Chatham House's Russia and Eurasia Program, who stated that Russia received from China 'tea and sympathy'.³⁹ According to the International Institute for Strategic Studies, the project showed a small net present value (NPV), approximately \$350 million, in May 2014 when the price of crude oil floated around \$110 per barrel.⁴⁰ However, when the oil price plummeted into the \$20-per-barrel range, Power of Siberia's NPV slid into negative \$25 billion.⁴¹ Yet as of summer 2017, Gazprom appears to be ahead of schedule on the Russian portion of the route.⁴²

³¹ Gazprom, Press Release, Alexey Miller: Russia and China signed the biggest contract in the entire history of Gazprom (21 May 2014) retrieved from <http://www.gazprom.com/press/news/2014/may/article191451/>.

³² Gazprom. Gazprom, Power of Siberia, <http://www.gazprom.com/about/production/projects/pipelines/ykv/> (last visited 15 September 2017).

³³ *Id.*

³⁴ Gazprom, Eastern Gas Program, <http://www.gazprom.com/about/production/projects/east-program/> (last visited 15 September 2017).

³⁵ President of the Russian Federation, Transcript of the Commission on Matters Concerning the Development of the Energy and Fuel Sector and Environmental Security meeting, Astrakhan, (4 June 2014).

³⁶ Sidortsov, 2014.

³⁷ Richard Weitz, The Russia-China Gas Deal: Implications and Ramifications, World Affairs (September/October 2014) retrieved from <http://www.worldaffairsjournal.org/article/russia-china-gas-deal-implications-and-ramifications>.

³⁸ Tim Treadgold, Merrill Lynch Says Russia's Gas Deal With China Was A Political Win But A Business Loss, Forbes, (28 May 2014) retrieved from <http://www.forbes.com/sites/timtreadgold/2014/05/28/merrill-lynch-says-russias-gas-deal-with-china-was-a-political-win-but-a-business-loss/>.

³⁹ Chatham House, The Russian Challenge, open event, London, (15 June 2015) retrieved from <https://www.chathamhouse.org/publication/russian-challenge-authoritarian-nationalism>.

⁴⁰ Pierre Noël, The International Institute for Strategic Studies, The Power of Siberia natural-gas project: commercial or political?, Politics and Strategy, (30 January 2017) retrieved from <https://www.iiss.org/en/politics%20and%20strategy/blogsections/2017-6dda/january-7f20/power-of-siberia-2a1d>.

⁴¹ *Id.*

⁴² Gazprom, Gazprom News, Press Release, Russian gas supplies to China via Power of Siberia to start in December 2019, (4 July 2017) retrieved from <http://www.gazprom.com/press/news/2017/july/article340477/>.

The problematic economics of the Power of Siberia project are partially attributed to the cost of the greenfield resources base development (the Chayandinskoe and Kovyktinskoe natural gas fields).⁴³ In contrast, many natural gas fields in Western Siberia do not come with the same costs, as some are already in the production stage and many are benefiting from already existing processing and transmission infrastructure.⁴⁴ The already developed resource base is one of the main reasons why the Russian leadership has been heavily advocating the so-called ‘western route’ or ‘the Power of Siberia 2’ to bring natural gas from Western Siberia to China.⁴⁵ It seemed that reaching consensus regarding the western route was a matter of time – the parties signed a heads of agreement for gas supply in May 2015.⁴⁶ However, as of June 2017, the negotiations stalled due to China rethinking its supply needs, including the role of LNG in its energy future.⁴⁷ Despite the rosy picture painted by the Russian leadership regarding the prospects of connecting Western Siberia fields to Asian markets, it has faced an uphill battle translating these prospects into reality from the very beginning.⁴⁸ Gazprom has to compete against natural gas from Central Asia over which Chinese companies have upstream control and, paradoxically, the ‘eastern route’ gas.⁴⁹

Therefore, in the absence of concessions from China and continued demand dynamics in Europe, LNG facilities capable of serving European and Asian markets appear to be the best solution for Russia’s ambition of unlocking its vast natural gas resource base. This solution puts Russia on the pathway of becoming a swing supplier, a strategy articulated by President Vladimir Putin at the St. Petersburg Economic Forum in 2014: ‘We will have a unified gas supply system that will fundamentally and substantially improve gasification in Russian territories and will enable us to diversify the exports – when it is needed, in the Western direction, and when it is more lucrative, pursuant to global demand, in the Eastern direction.’⁵⁰

⁴³ Center for Strategic & International Studies, Energy 360 Podcast, Russia: Energy & Geopolitics, (17 July 2017) retrieved from <https://www.csis.org/podcasts/energy-360>.

⁴⁴ EIA, Russia.

⁴⁵ President of the Russian Federation, Transcript of the meeting with the heads of global news outlets, St. Petersburg (24 May 2014).

⁴⁶ Gazprom, Gazprom News, Press release, Gazprom and CNPC sign Heads of Agreement for gas supply via western route, (8 May 2015) retrieved from <http://www.gazprom.com/press/news/2015/may/article226167/>.

⁴⁷ Olesya Astakhova & Oksana Kobzeva, Russia-China talks over new gas routes stalled: sources, Reuters, (7 June 2017) retrieved from <http://www.reuters.com/article/us-russia-china-energy-idUSKBN18Y1TX>.

⁴⁸ President of the Russian Federation, Transcript of the meeting with participants of the World Business Leaders Summit, St. Petersburg, (23 May 2014) [hereinafter 23 May 2014 Transcript]; President of the Russian Federation, Transcript of the meeting with the Chairman of Gazprom’s Board of Directors Alexei Miller, Moscow, (17 September 2014); 2 October 2014 Transcript.

⁴⁹ See generally: Keun-Wook Paik, Sino-Russian Oil and Gas Cooperation: The Reality and Implications (2012); James Henderson, The Oxford Institute for Energy Studies, The Commercial and Political Logic for the Altai Pipeline, (December 2014) retrieved from <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/12/The-Commercial-and-Political-Logic-for-the-Altai-Pipeline-GPC-4.pdf>.

⁵⁰ 23 May 2014 Transcript.

4. Government Support for LNG

The policy case for LNG expansion in Russia justifies government support for such projects, which the Russian government has provided generously. Lunden and Fjærtoft conducted an in-depth review of subsidies for the Yamal LNG project.⁵¹ As Table 2 summarizes, the government support for this project extended well beyond tax subsidies.⁵²

Table 2 Main subsidies for the Yamal LNG project

<i>Direct and indirect transfer of funds and liabilities</i>
<p>Construction and operation of the following infrastructure:</p> <ul style="list-style-type: none"> • Administrative facilities • Ice-protection construction • Port harbour • Approach channel • Seaway channel <p>Substantial investment in the following facilities:</p> <ul style="list-style-type: none"> • Sabetta seaport • Icebreaking fleet through state-owned company Atomflot • LNG tanker fleet through state-owned company Sovcomflot <p>Payment of compensation for environmental harm due to industrial activities including dredging</p> <p>State bank (Vneshekonombank) involvement in the financing of the LNG tanker fleet</p>
<i>Tax Subsidies</i>
<p>Mineral Extraction Tax (MET) exemption for natural gas for up to 250 bcm during initial 12 years of production and for natural gas liquids (NGLs) for up to 20 Mt during initial 12 years of production</p> <p>Exemption for export duties (ED) for LNG and Stable Gas Condensate</p> <p>Exemption for property tax until 250 bcm of gas has been produced, but during 12 years from the time the property was put into service</p> <p>Reduced profit tax rate, 13.5% (from 18%) for the first 250 bcm of gas production during the initial 12 years of production</p>

⁵¹ Lunden, L. P. and Fjærtoft, D., WWF, IISD, GSI, & Sigragroup, Government Support to Upstream Oil & Gas in Russia How Subsidies Influence the Yamal LNG and Prirazlomnoe Projects, (2014) [hereinafter Lunden and Fjærtoft, 2014].

⁵² *Id.*

Immediate accelerated depreciation allowance for up to 30% for fixed assets
Accelerated (double the regular rate) depreciation for the assets located in the Arctic zone
<i>Other Subsidies</i>
The Yuzhno-Tambeyskoe natural gas field initial exploration and development costs were borne by the Soviet government when the field was first discovered in 1974
Licence to Novatek subsidiary, Tambeyneftegaz, was issued on uncertain terms
Changes in the natural gas export legislation, allowing Yamal LNG to contract with foreign customers directly

Lunden and Fjærtøft estimate the total value of Russian government support of the Yamal LNG project to be \$7.4 billion, including \$3.3 billion in dredging costs and \$4.1 billion for the development of the Sabetta infrastructure.⁵³ Notably, at a minimum, \$5.75 billion would essentially constitute a gift to Novatek and its partners.⁵⁴ Lunden and Fjærtøft also estimate a government revenue decrease from 77% to 24% due to all the aforementioned tax subsidies.⁵⁵ This drop would translate into an approximate \$15 billion tax revenue loss at the natural gas price of \$12 per MMBtu, condensate price of \$100 per barrel, and the exchange rate of 30 rubles per U.S. dollar.⁵⁶

As Table 2 suggests, the Russian government employs a wide array of tools to support LNG projects, which is in line with the Kremlin's patronage of the oil and gas sector. These tools include assistance with obtaining 'cheap money' financing,⁵⁷ especially during the initial phase.⁵⁸ Perhaps the most vivid example of the Yamal LNG project being a top priority of the Kremlin came after the United States and European Union imposed economic sanctions in response to Russia's annexation of Crimea in 2014, which increased project financing costs.⁵⁹ The Kremlin showed little hesitation, authorizing transfers from the National Welfare Fund (NWF) to ease the financing costs burden whilst the national economy was struggling.⁶⁰ The fact that financing assistance came from the NWF and not from the Reserve Fund (RF) shows that the Kremlin is willing to dip into any available revenue source. The RF was created, among other things, to 'bring stability of the country's economic development' and 'lower the national economy's dependence on finite natural resource price volatility.' Correspondingly, the RF is funded from oil and gas export duty and mineral extraction tax

⁵³ President of the Russian Federation, Transcript of the meeting regarding implementation of the Yamal LNG project and construction of Sabetta sea port, Salehard, (26 September 2013).

⁵⁴ *Id.*

⁵⁵ Lunden and Fjaertøft, 2014.

⁵⁶ Lunden and Fjaertøft, 2014; Ivetta Gerasimchuk, WWF & IISD, Fossil fuels – at what cost?: Government support for upstream oil and gas activities in Russia (2012).

⁵⁷ President of the Russian Federation, Transcript of the meeting of the Commission on the strategic development of the energy and fuel sector and environmental security, Moscow, (10 July 2012).

⁵⁸ President of the Russian Federation, Vladimir Putin's post-G20 meeting press-conference, St. Petersburg, (6 September 2013).

⁵⁹ EIA, Russia; 31 October 2014 Transcript.

⁶⁰ 31 October 2014 Transcript.

revenues.⁶¹ However, the NWF's main objective is to provide 'sustainable mechanism for pension support' through 'co-financing voluntary pension deposits of Russian citizens'.⁶²

In addition, the Tax Code, which in theory applies equally to all taxpayers, is frequently used for what is known as pinpoint 'tuning' of energy projects.⁶³ For example, the 21 July 2011 Tax Code amendments, pursuant to which Novatek received the aforementioned ED and 12-year MET exemptions, listed the geographic location of the exempt deposits that tailored the subsidy for Yamal LNG and its expansion.⁶⁴ Therefore, the Russian taxation regime has sufficient flexibility to manipulate the effective tax rate and legislatively create individual tax holidays. In addition, the Kremlin's control of the Federation Council ensures that amendments to the Tax Code are passed at will.⁶⁵

Yet the example of generous support that Yamal LNG received from the Russian government does not mean that any company with a sensible business plan that aligns with the Kremlin's policy goals receives such support. As of summer 2017, only three companies, Gazprom, Rosneft, and Novatek possessed the right to export LNG. Investigating the scope of each company's right and likely reasons for possessing it is a useful exercise for forecasting the development of Russia's LNG sector.

Until late November 2013, under Russian law, only Gazprom possessed such right as the owner of the Unified Gas Supply System (UGSS).⁶⁶ On 30 November 2013, federal laws, 'On Exports of Natural Gas' and 'On Foreign Commerce', were amended to grant the right to two additional types of entities (the 'LNG Export Amendments').⁶⁷

The first type comprises entities whose subsoil use licence satisfies the following three criteria. First, the licence must cover deposits of 'federal significance'.⁶⁸ Russian law designates such deposits for 'the purposes of defence and security of the state'.⁶⁹ Deposits of federal significance include: (i) all deposits with recoverable reserves of seventy million tonnes or more of oil or fifty billion cubic meters (bcm) or more of natural gas; and (ii) all mineral deposits (regardless of their size) located on the territory of internal sea waters, territorial sea, and continental shelf.⁷⁰ Second, the licence must provide for construction of an

⁶¹ Ministry of Finance of the Russian Federation, Reserve Fund, Purpose, <https://www.minfin.ru/ru/performance/reservefund/mission/> (last visited 15 September 2017).

⁶² Ministry of Finance of the Russian Federation, National Welfare Fund, Purpose, <https://www.minfin.ru/ru/performance/nationalwealthfund/mission/> (last visited 15 September 2017).

⁶³ President of the Russian Federation, Transcript of the meeting with heads of energy companies, St. Petersburg, (21 June 2012).

⁶⁴ Law of the Russian Federation N258-FZ, dated as of 21 July 2011 'On amending article 342 part II of the Tax Code of the Russian Federation.

⁶⁵ Sergey Donskoy, On the program of mineral resource development on the Arctic continental shelf, Pro-Arctic, (21 August 2012) retrieved from <http://pro-arctic.ru/21/08/2012/legislation/19>; 13 February 2013 Transcript.

⁶⁶ State Duma of the Russian Federation, Explanatory Note to the Proposed Bill On Amending Articles 13 and 24 of the Federal Statute 'On the Foundations of State Regulation of Foreign Commerce' and Articles 1 and 3 of the Federal Statute 'On Exports of Natural Gas.', (6 November 2013).

⁶⁷ Law the Russian Federation N318-FZ, dated as of 30 November 2013 'On Amending Articles 13 and 24 of the Federal Statute 'On the Foundations of State Regulation of Foreign Commerce' and Articles 1 and 3 of the Federal Statute 'On Exports of Natural Gas' [hereinafter Law N318-FZ].

⁶⁸ *Id.*, art. 2.

⁶⁹ Law the Russian Federation N2395-I. dated as of 21 February 1992 'On Subsoil Resources', as amended on 1 December 2007, art. 2.1 [hereinafter Law N2395-I].

⁷⁰ *Id.*

LNG plant or provide for transmission of the extracted natural gas to an LNG plant.⁷¹ Third, the licence must have contained this LNG plant provision before 1 January 2013.⁷²

The second type comprises entities that are permitted to access offshore oil and gas resources under the federal laws ‘On Subsoil Resources’ and ‘On the Continental Shelf’.⁷³ In addition, such entities must meet either of the following two sets of conditions: the users of offshore subsoil resources must produce LNG (i) from the gas that they extract, or (ii) from the gas produced by another company pursuant to a PSA. In either case, the Russian Federation must own more than 50 % of such an entity’s common stock and/or control more than 50% of the voting stock.⁷⁴ Under the second set, the users of offshore subsoil resources must be subsidiaries of the entities that produce LNG from the gas extracted pursuant to a PSA and must otherwise satisfy the first set of conditions. In addition, an eligible parent company must own more than 50% of the subsidiary’s voting stock.

These ostensibly confusing requirements appear to be tailored to the aforementioned companies and the current and prospective projects highlighted above. The first type of entities includes a peculiar condition – all eligible licenses must have been issued prior to 1 January 2013.⁷⁵ The explanatory legislative note that came with the LNG Export Amendments bill stated concerns over natural gas supply for domestic use as the main reason for the 1 January 2013 license date.⁷⁶ Accordingly, the note stated not *all* natural gas licence holders would automatically obtain the right to export LNG.⁷⁷ As stated above, Russia has had a stagnant domestic natural gas market. It also has plentiful spare production and pipeline capacity.⁷⁸ Therefore, the concerns over supply for the domestic market stated in the explanatory note were non-existent. It appears that the real reason for this bundle of peculiar conditions, including the 1 January 2013 requirement was to create a list of winners eligible to export. It turns out that the list was very short. To be precise, it contained only one company, Novatek, as this was the *only* entity with a pre-2013 licence to develop natural gas deposits of federal significance and to build an LNG plant (or transport of extracted natural gas to an LNG plant).⁷⁹

The second type of entities that the LNG Export Amendments created appear to be designed for offshore projects operated by Rosneft and joint ventures under Rosneft’s and Gazprom’s control. Russian law does not explicitly recognize offshore mineral resources as a separate category.⁸⁰ The functional equivalent of this category is mineral resources located on the territory of internal sea waters, territorial sea, and continental shelf.⁸¹ As noted above, these

⁷¹ Law N318-FZ, art. 2.

⁷² *Id.*

⁷³ *Id.*

⁷⁴ *Id.*

⁷⁵ Law N318-FZ, art. 2.

⁷⁶ State Duma of the Russian Federation, Explanatory Note to the Proposed Bill Amending Article 3 of the Federal Statute ‘On Exports of Natural Gas’ dated as of 26 May 2014 (26 May 2014) [hereinafter 2014 Explanatory Note]

⁷⁷ *Id.*

⁷⁸ CSIS, 2015.

⁷⁹ Farit Ishmukhametov, LNG Received Permission to Exit, Kommersant, (2 December 2013) retrieved from <http://www.kommersant.ru/doc/2358069>.

⁸⁰ Roman Sidortsov, The Russian offshore oil and gas regime: When tight control means less order, in Governance of Offshore Hydrocarbon Activities in the Arctic, Ellen Margrethe Basse and Cecile Peladeix eds. (2017) at 128 [hereinafter Sidortsov, 2017].

⁸¹ Law N2395-I, art. 2.1.

resources are deemed of federal significance.⁸² Russian policy-makers view hydrocarbon deposits that are at least partially located on the continental shelf, as a special resource subcategory. In order to have access to these resources, an entity must comply with the following requirements: (i) be formed under the laws of the Russian Federation; (ii) have five or more years of experience operating on the Russian continental shelf; and (iii) more than 50% of the entity's voting stock must be under control of the Russian state.⁸³ These requirements make Gazprom and Rosneft the only two companies eligible to access significant offshore hydrocarbon deposits in Russia.⁸⁴

The requirements came into force in 2008 as a result of a lobbying campaign spearheaded by then Deputy Prime Minister Igor Sechin.⁸⁵ Mr Sechin, who has been Rosneft's chief executive officer since 2012, served as the chairman of Rosneft's board of directors from 2004 until 2011. Mr Sechin's received support from Dmitry Medvedev with whom Vladimir Putin swapped President and Prime Minister seats in 2008.⁸⁶ Dmitry Medvedev served as deputy head of the Gazprom board of directors and head of the board of directors in 2000-2002 whilst playing an important role in Gazprom's takeover by members of Vladimir Putin's inner circle.⁸⁷

Unsurprisingly, Rosneft was the driving force behind the LNG Export Amendments in 2013.⁸⁸ Joining Rosneft's lobbying effort was Novatek, another company with close ties to the Kremlin. As of 2014, Gennady Timchenko, a Novatek board member and major shareholder, was also a 43% owner of Gunvor, an energy trading company.⁸⁹ According to the U.S. Department of the Treasury (the "Treasury"), President Putin had close financial connections to Gunvor through Mr Timchenko:

Gennady Timchenko is one of the founders of Gunvor, one of the world's largest independent commodity trading companies involved in the oil and energy markets. Timchenko's activities in the energy sector have been directly linked to Putin. Putin has investments in Gunvor and may have access to Gunvor funds.⁹⁰

⁸² Id.

⁸³ Id., art. 9.

⁸⁴ Sidortsov, 2017 at 133.

⁸⁵ Id.

⁸⁶ President of the Russian Federation, Transcript of the working meeting with Deputy Prime Minister Igor Sechin, Moscow, (18 July 2008).

⁸⁷ Karen Dawisha, *Putin's Kleptocracy: Who Owns Russia?* (2015) [hereinafter Dawisha, 2015]; The Russian Government, Dmitry Medvedev, Biography, <http://premier.gov.ru/en/biography/> (last visited 15 September 2017).

⁸⁸ Yuri Barsukov, *Lukoil Aims at LNG Export*, Kommersant, (20 November 2013), retrieved from <http://www.kommersant.ru/doc/2348143> [hereinafter Barsukov, 2013].

⁸⁹ Anna Dolgov, *Sanctioned Timchenko Sells Stake in Gunvor*, Moscow Times, (24 March 2014) retrieved from <http://www.themoscowtimes.com/business/article/sanctioned-timchenko-sells-stake-in-gunvor/496611.html> [hereinafter Dolgov, 2014]

⁹⁰ U.S. Department of the Treasury, Press Release, *Treasury Sanctions Russian Officials, Members Of The Russian Leadership's Inner Circle, And An Entity For Involvement In The Situation In Ukraine*, Treasury.gov, (20 March 2014) retrieved from <http://www.treasury.gov/press-center/press-releases/Pages/jl23331.aspx>. Gunvor vehemently denied allegations asserting its connection to President Putin as 'fundamentally misinformed and outrageous'. Dolgov, 2014.

In fact, the Treasury used this finding to justify placing Gennady Timchenko on the list of sanctioned persons and companies after the March 2014 referendum in Crimea on whether the region should leave Ukraine and join Russia.⁹¹

On 13 February 2013, at the Meeting of the Presidential Commission on the Strategy of Fuel and Energy Sector Development and Environmental Security, the strategic decision on the LNG Export Amendments was made. During this meeting, Mr Sechin asked President Vladimir Putin to consider expanding the right to export natural gas to companies that have access to the Russian continental shelf's hydrocarbon resources:

Taking into account . . . the fact that Article 23 of the statute 'On Subsoil Resources' requires comprehensive development of oil and gas deposits located on the continental shelf, we are asking you to consider liberalizing gas exports. What is meant here is only liquefied gas. The timing of these decisions is of strategic importance, as they need to be made in response to the opportunities presented by the global markets and the development of the global economy.⁹²

Igor Sechin also stated that the 'liberalization proposed by us' will not hurt Gazprom, 'our main gas producer'.⁹³ Remarkably, he confirmed that the LNG Export Amendments were drafted with both predetermined entities and predetermined projects in mind.⁹⁴

The LNG Export Amendments bill took only a few weeks to land on President Putin's desk. During this rather brief legislative process, an additional amendment was made that made Lukoil, the country's second-largest oil producer and fourth-largest natural gas producer, as an entity eligible to export LNG.⁹⁵ However, this amendment was rejected, along with a later stand-alone bill that would have moved the license cut-off date from 1 January 2013 to 1 July 2014.⁹⁶ The failure to pass the latter forced ALLTEK, the company that was allegedly behind the stand-alone bill, to sell its majority share in the Pechora LNG project in May 2014 to Rosneft.⁹⁷ Whilst preparing for the deal, the Federal Agency for Mineral Resources (*Rosnedra*) amended ALLTEK's licence to cover LNG-related activities.⁹⁸

The LNG Export Amendments were heralded as liberalization of the Russian LNG export regime. I argued against this designation—if anything the LNG Export Amendments highlighted the control that the Russian government exercises over the energy sector.⁹⁹ Although two additional types of entities were allowed to export LNG, the change did not amount to lessening the government's control over access to the market. In contrast, it reinforced the cardinal rule of succeeding in the oil and gas business in Russia – one must go

⁹¹ *Id.*

⁹² 13 February 2013 Transcript.

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ Barsukov, 2013.

⁹⁶ Legislative Bill N531218-6 dated as of 26 May 2013 'Amending Article 3 of the Federal Statute 'On Exports of Natural Gas'. State Duma. 2014 Explanatory Note.

⁹⁷ (Pechora LNG, 2013). <http://www.pechoralng.com/massmedia/news/264-2014-05-23.html> Pechora LNG, ALLTEK Group and OAO National Company Rosneft' Signed a Framework Cooperation Agreement Regarding the Pechora LNG Project, Pechora LNG, (23 May 2013) retrieved from <http://www.pechoralng.com/massmedia/news/264-2014-05-23.html>.

⁹⁸ *Id.*

⁹⁹ Sidortsov, 2014.

to and through the Kremlin to have any chance at gaining access to significant hydrocarbon resources and/or export markets. Yet showing up at the Kremlin's Spasskaya Tower gate with a VIP pass and a brilliant business plan will not suffice. The access that Novatek and Rosneft received after the enactment of the LNG Export Amendments was premised on the deep, mutually beneficial relationship between the very top of the Russian state leadership and the top corporate decision-makers.

5. Barriers to LNG Development in Russia

Owners of LNG projects in Russia face similar challenges as their counterparts around the world. Near five- and threefold natural gas price differences between Asian and European regional markets (respectively) and Henry Hub prices in the United States do not automatically translate into long-term LNG contracts and, correspondingly, new LNG projects.¹⁰⁰ As of summer 2017, there are not enough buyers willing to enter into typical long-term LNG contracts.¹⁰¹ In fact, as of May 2017, only about 50% of the LNG capacity under construction in the United States has been sold to end users.¹⁰² According to Fereidun Fesharaki, the oversupply in the long-term contract market is likely to exist through 2023.¹⁰³ In addition, the LNG spot market finds itself overwhelmed by a depressed price lull.¹⁰⁴ Whereas the current situation on the long-term contract market should serve as a stern warning to prudent developers and financiers, the spot market dynamics should discourage even those willing to gamble.

Yet the buyers' contract and spot markets are not the only challenges that Russian LNG projects face. What they, especially those located in the Arctic, might gain from their advantageous geographic location, they might lose because of geopolitical factors. On 2 August 2017, in the United States, a legislative bill codifying and expanding economic sanctions imposed by the Obama administration against Russia became law.¹⁰⁵ The legislation, H.R. 3364-21, entitled 'Countering America's Adversaries Through Sanctions Act', does not specifically include LNG in the scope of sanctioned projects.¹⁰⁶ However, several provisions indirectly complicate LNG development in Russia. First, the act gives the president authority to impose sanctions on individuals or entities, regardless of their nationality, that invest in Russian natural gas export pipelines.¹⁰⁷ The act further clarifies the term 'investment' as 'an investment that directly and significantly contributes to the enhancement of the ability of the Russian Federation to construct energy export pipelines'.¹⁰⁸ Therefore, an argument can be made that if economic viability of an export pipeline at least

¹⁰⁰ EIA, 2014 at 5; <https://www.csis.org/events/global-lng-market-outlook-too-many-sellers-not-enough-buyers> Center for Strategic & International Studies, The Global LNG Market Outlook: Too Many Sellers, Not Enough Buyers, CSIS event on 25 September 2015. Washington, D.C. retrieved from <https://www.csis.org/events/global-lng-market-outlook-too-many-sellers-not-enough-buyers> [hereinafter CSIS, 2015a].

¹⁰¹ Center for Strategic & International Studies, Balance for Oil, Imbalance for LNG?, CSIS event on 23 May 2017. Washington, D.C., retrieved from <https://www.csis.org/events/balance-oil-imbalance-lng>.

¹⁰² Id.

¹⁰³ Id.

¹⁰⁴ CSIS, 2015a.

¹⁰⁵ U.S. Congress, Legislation, 115th Congress, H.R. 3364, H.R.3364 - Countering America's Adversaries Through Sanctions Act, <https://www.congress.gov/bill/115th-congress/house-bill/3364/all-actions?overview=closed#tabs> (last visited 15 September 2017).

¹⁰⁶ Countering America's Adversaries Through Sanctions Act, Pub. L. No. 115-44 [hereinafter Pub. L. No. 115-44].

¹⁰⁷ Id. §232.

¹⁰⁸ Id.

in part depends on the commodity diverted to an LNG export terminal, an investment in the LNG terminal might fall under the purview of the act. Examples of proposed projects that are supplied by export pipelines are Vladivostok LNG and Baltic LNG.

Second, the act affirms sanctions related to new ‘deepwater, Arctic offshore, or shale projects’ that have ‘the potential to produce oil’.¹⁰⁹ Although this provision does not affect purely natural gas projects, it appears to impact projects that target both oil and gas. The latter are not a rarity; in fact, there are two examples among the operating and proposed LNG projects in Russia. Sakhalin LNG receives natural gas from the Piltun-Astokhskoye field that produces both oil and associate gas.¹¹⁰ The proposed Far Eastern LNG is projected to tap into the Chayvo field, part of which is located offshore. Similarly to Piltun-Astokhskoye, Chayvo also produces both oil and gas.¹¹¹ Yet neither field is located in the Arctic or utilizes deepwater or shale resources. Such ‘exonerating’ circumstances notwithstanding, this provision is likely to limit the resource base available for prospective LNG projects.

The third and perhaps most significant complication of the act comes in the form of Subtitle B—Countering Russian Influence in Europe and Eurasia of Title II. Section 257 entitled ‘Ukrainian Energy Security’ commences with the following pertinent policy statements:

(7) to help Ukraine and United States allies and partners in Europe reduce their dependence on Russian energy resources, especially natural gas, which the Government of the Russian Federation uses as a weapon to coerce, intimidate, and influence other countries;

(8) to work with European Union member states and European Union institutions to promote energy security through developing diversified and liberalized energy markets that provide diversified sources, suppliers, and routes;

....

(10) that the United States Government should prioritize the export of United States energy resources in order to create American jobs, help United States allies and partners, and strengthen United States foreign policy.¹¹²

To further these policy statements, the Export-Import Bank of the United States and the Overseas Private Investment Corporation are encouraged to ‘play key roles in supporting critical energy projects that contribute to that goal’.¹¹³ The act also directs ‘[a]mounts in the Countering Russian Influence Fund’, established by the act, to support technical advice directed at enhancing energy security and lowering dependence on Russian energy sources.¹¹⁴

¹⁰⁹ Id. §223(d).

¹¹⁰ Gazprom, Sakhalin 2.

¹¹¹ Exxon Neftegas Limited, Chayvo field, <http://www.sakhalin-1.com/en-ru/company/about-us/phases-and-facilities/chayvo> (last visited 15 September 2017).

¹¹² Pub. L. No. 115-44, §257(a).

¹¹³ Id. §257(c).

¹¹⁴ Id.

In addition, the act authorizes \$30 million for the U.S. Department of State to support activities aimed at increasing energy security in Ukraine.¹¹⁵

The approach taken in the ‘Countering America’s Adversaries Through Sanctions Act’ received criticism in Europe as patronizing, lacking nuance, and excessively strong-handed.¹¹⁶ Yet despite the criticism, there appears to be a general agreement between the United States and the European Union about reliance on Russian natural gas. In fact, since Russia’s annexation of Crimea in the spring of 2014, in Europe, the issue of natural gas supplies from Russia has been largely framed in terms of dependence reduction.¹¹⁷ This framing became particularly clear to me after speaking to several military officials from the Baltic States and Poland in the spring of 2017. One official stated that the European Union should move away from Russian gas regardless of economic costs. Although this sentiment might not be reflective of official government policies of European Union members, it represents powerful voices in the political discourse that is already influenced by the Kremlin’s recent adventurism. Russia’s aspiration of becoming a meaningful swing supplier, at least in the long-term market, is thus likely to face stiff opposition in Europe.

One might argue that having long-term contract arrangements in Europe is not as important for owners of LNG projects in Russia because of the strong support they receive from the Russian government. Under this logic, the owners can still ‘swing’ to the European spot market when an opportunity arises. There are two problems with this argument. First, support from the Russian government is unlikely to be infinite. The Russian budget has been battered by the economic stagnation exacerbated by the low oil prices and E.U. and U.S. economic sanctions.¹¹⁸ According to the Russian Finance Ministry, as of 1 September 2017, the RF has \$17.06 billion or 1.1% of Russia’s GDP. In comparison, the RF proceeds climbed to \$142.60 billion or 8.5% of GDP, the highest-ever point since the RF inception on 1 September 2008, and to \$91.72 billion or 4.3% of GDP, the highest point since the 2009 global recession, on 1 July 2014.¹¹⁹ Regarding the NWF, as of 1 September the fund holds \$75.36 billion or 4.8% of Russia’s GDP. The NWF proceeds that are not purposed to provide economic aid and do not come directly from oil and gas tax and export duty revenues climbed to their highest-ever point of \$94.34 billion on 1 May 2011.¹²⁰

The second problem lies in the systemic and often intentional economic inefficiency of many Russian companies operating in the oil and gas sector. Staggering cost overruns continue to puzzle Western energy analysts entrenched in the neoclassical mindset.¹²¹ For example, the cost of Nord Stream pipeline per kilometre construction on the Russian side exceeded those on the German side by the factor of three.¹²² This is especially remarkable given the ostensibly lower labour costs in Russia and that oil and gas pipeline projects are not subject to

¹¹⁵ Id. §257(d).

¹¹⁶ Boris Toucas, Center for Strategic & International Studies, (4 August 2017) retrieved from <https://www.csis.org/analysis/russia-sanctions-act-enacted-president-trump-europes-best-ally-managing-impact>.

¹¹⁷ Oxford, 2014.

¹¹⁸ Center for Strategic and International Studies, The Present and Future of Russia's Economy and Energy Sector, event at CSIS on 26 October 2015, Washington, D.C., retrieved from <https://www.csis.org/events/present-and-future-russias-economy-and-energy-sector>.

¹¹⁹ Ministry of Finance of the Russian Federation, Reserve Fund, Statistics, <https://www.minfin.ru/ru/performance/reservefund/statistics/> (last visited 15 September 2017).

¹²⁰ Ministry of Finance of the Russian Federation, National Welfare Fund, Statistics, <https://www.minfin.ru/ru/performance/nationalwealthfund/statistics/> (last visited 15 September 2017).

¹²¹ CSIS, 2015.

¹²² Dawisha, 2015, p. 306.

environmental impact assessment (EIA) under Russian law.¹²³ Another example is even more staggering – to bring the Bovanenkovo natural gas field online, Gazprom could have connected it to the existing trunk pipeline network by building a 500-kilometre link. In fact, building this link has been the plan for years. Instead, the company chose to build two new pipelines, Bovanenkovo–Ukhta and Ukhta-Torzhok (Gryazovets), with a combined length of 2,170 kilometres and price tag of \$44 billion.¹²⁴ Such practices allow companies to employ business models that make money on costs and not profits.¹²⁵ This is not to say that an entity cannot change a business model premised on cost inflation when systemic opportunities to do so disappear. However, it is safe to assume that this entity will face a steep learning curve, especially considering tough global competition and limited government support.

6. Conclusion

The Russian leadership faces a threshold decision – either to continue its policy of extreme patronage or begin levelling the playing field and hope that technological and business innovation will overcome geopolitical bias and tough international competition. As noted above, on 26 May 2014, nearly seven months after the LNG Export Amendments were signed into law, a legislative bill proposing to extend the 1 January 2013 cut-off date for otherwise eligible license holders to 1 July 2014 was introduced. As of September 2017, the bill is still under consideration by the State Duma.¹²⁶ The Kremlin’s take on the bill in the document entitled ‘Official Response by the Government of the Russian Federation’ notes that ‘further liberalization of LNG is only possible after the analysis of the most recent amendments results.’¹²⁷ The fact that the bill has not been purged by the Duma’s legislative machinery suggests that the current trio of companies might not be final. However, a potential increase in the number of companies allowed to export LNG in Russia will not automatically mean market liberalization and improved chances of Russian projects to compete on the world stage. Given tight government control over the oil and gas sector in Russia, newcomers might include companies with close ties to the Kremlin that missed the cut in 2013.¹²⁸ As a result, Russian LNG projects face real danger of being stuck at the crossroads of policy ambition and structural barriers, some of which are self-inflicted.

¹²³ Certain facilities within a pipeline project such as hazardous waste storage might require an EIA but the project as a whole does not. Roman Sidortsov, et al., *Localizing governance of systemic risks: A case study of the Power of Siberia pipeline in Russia*, Energy Research and Social Science, 16 (2016).

¹²⁴ Gazprom, Bovanenkovskoye field, <http://www.gazprom.com/about/production/projects/deposits/bm/> (last visited 15 September 2017); Gazprom, Ukhta – Torzhok and Ukhta – Torzhok 2, <http://www.gazprom.com/about/production/projects/pipelines/active/ukhta-torzhok2/> (last visited 15 September 2017); Gazprom, Bovanenkovo – Ukhta and Bovanenkovo – Ukhta 2, <http://www.gazprom.com/about/production/projects/pipelines/active/by-ytg/> (last visited 15 September 2017).

¹²⁵ CSIS, 2015.

¹²⁶ Legislative process support system, Legislative Bill N531218-6, <http://sozd.parlament.gov.ru/bill/531218-6> last visited 15 September 2017).

¹²⁷ S. Prihodko, Deputy Prime Minister, The Government of the Russian Federation, The official response on the legislative bill N 531218-6 ‘On amending article 3 of the federal law “On gas export”, proposed by the legislator V.A. Yazev, 23 June 2014. The Government of the Russian Federation or *Pravitel'stvo Rossiyskoy Federatsii* that resembles a mega-agency and consists of many administrative agencies. Sidortsov, 2014.

¹²⁸ Lukoil, for example. Sidortsov, 2014.